FARMERS' NEWSLETTER
Livestock

February 80/L-16

Although the downswing of the latest cattle cycle seems to have ended, cattlemen did not expand their herds in 1979.

The number of cattle and calves in the United States on January 1, 1980--at 111 million head--was only 100,000 larger than a year earlier. Beef cows numbered 37 million--20,000 less than the year before--while replacement heifers, at 5.9 million, were up 8 percent.

The small increase in the January cattle inventory was a surprise as conditions in 1979 appeared excellent for a modest expansion. Prices of feeder calves and yearlings were 40 and 50 percent higher than in 1978, grazing was the best since 1961, and dressed beef prices were up 25 percent from their 1978 average. Still, only one third of the replacement heifers on hand last July 1 actually entered the cow herd.

Price Strength To Continue

At this point, 1980 also looks favorable for herd expansion. Although prices for your cattle are unlikely to shoot up like they did in 1978 and 1979, they will probably remain near last year's levels. Prices may increase further for stocker-feeder cattle of lighter weights.

Beef production could begin increasing again in 1981. Pork supplies may decline after 1980, but the overall supply of red meat and poultry is expected to rise. However, that rise is not expected to bring on any major price declines for several years, and herd expansion will likely remain a profitable venture in the meantime.

This raises an important question: Will cattlemen be able to control expansion of the cattle herd in the years ahead and prevent another major liquidation like the one just ended?

Keeping Herd Expansion Stable

First of all, let's try to figure how much and how fast the cow herd can grow without overexpanding in relation to consumer demand.

With their disposable incomes rising for the past several years, consumers have been spending more for meat; however, the percentage of income spent on meat has remained fairly stable, averaging 4 to 5 percent. Consumers allocate their expenditures among the red meats and poultry according to the price of each, which in the short run depends on the relative supplies of these meats.

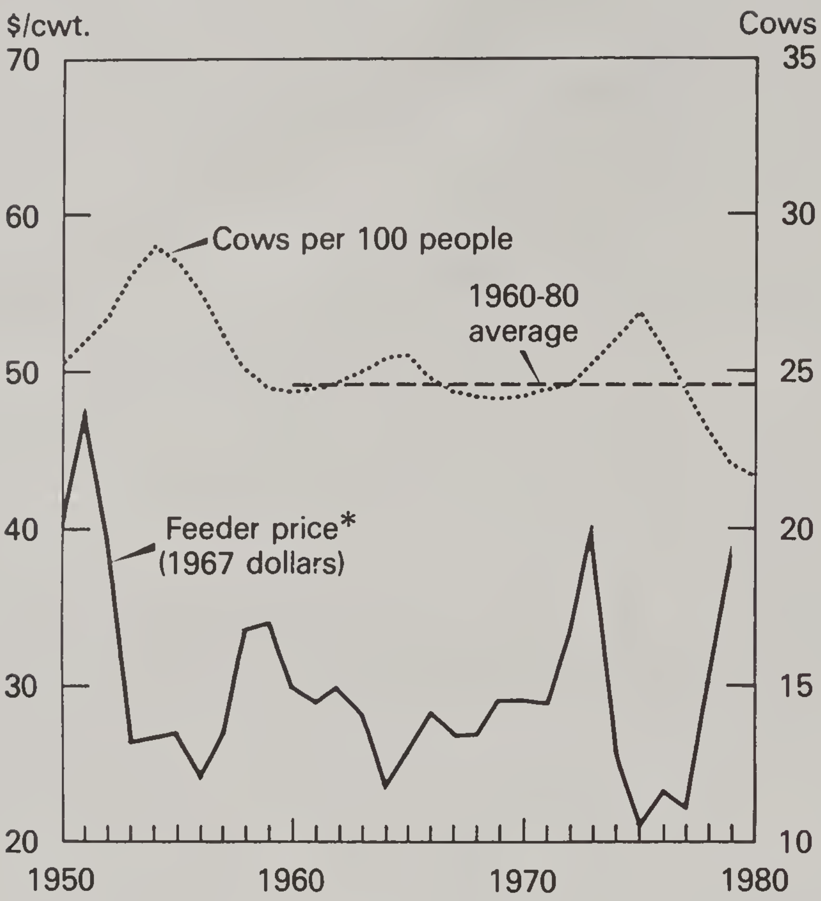
As you know, beef supplies are not determined solely by cattle numbers. Other factors include the proportion of fed cattle, the weight of finished

The Farmers' Newsletter is authorized by Congress and written and published by USDA's Economics, Statistics, and Cooperatives Service. Materials in the newsletter are approved by the World Food and Agricultural Outlook and Situation Board.

Principal contributor to this issue:
Ronald A. Gustafson (202) 447-5327

The next livestock newsletter is scheduled for early April.

CATTLE PRICES REFLECT NUMBER OF COWS PER PEOPLE



*Choice grade feeder steers 600 to 700 pounds, Kansas City.

cattle, and the mix of steer and heifer slaughter. In the long run, however, beef supplies rise and fall with changes in the size of the cow herd--both beef and dairy cows. And cow numbers, in turn, increase or decrease according to changes in cattle prices.

This complex, never ending circle of change in demand, supply, and prices can be seen largely through one simple statistic--the number of cows per 100 people. This ratio, indicating the supply/demand balance, has averaged 24.5 cows per 100 people since 1959. (Cow numbers were higher in the early 1950's because of large dairy herds.)

A value above this average would tend to indicate an oversupply; a lower value an undersupply relative to demand. Multiplying this average ratio by the population will give some idea of the size of the cow herd needed for that population level. Historically, during periods when the cows to people ratio has been near average, meat and cattle prices were acceptable to consumers and favorable for producers.

In 1975, the number of cows per 100 people rose to 27--a 20-year high--and the price of feeder cattle in constant (1967) dollars fell to its lowest level of the 30-year period. The cow herd was then liquidated, and the number of cows per 100 people shrank to 22 by the start of 1980. In response, feeder prices--in constant dollars--rose toward the level of the early 1970's.

This year, the U.S. population is about 220 million. It is forecast to rise to 241 million by 1990. Now, assuming that our measuring stick of 24.5 cows per 100 people is a reliable indicator of the supply/demand balance in the 1980's, the cow herd could grow from its present 48 million head to just under 60 million by 1990 without overexpansion.

In fact, the cow herd could have been as high as 54 million head at the start of this year (instead of the actual 48 million) without surpassing the stable cows-to-people ratio of 24.5. Based on past herd rebuilding rates and the projected demand for beef, cow numbers could rise to 56 or 57 million head by the mid-1980's before reaching the point of overexpansion. Of this total, 10 million would probably be dairy cows (based on projected milk demand).

Clues to Overexpansion

In the last 3 cattle cycles, cows reached the overexpansion level in 1953, 1964, and 1973 (see accompanying chart). Right now, you shouldn't expect an overexpansion of the cow herd before 1985.

However, by that time it could be too late for you to prevent excess growth of the cattle herd. In past cycles,

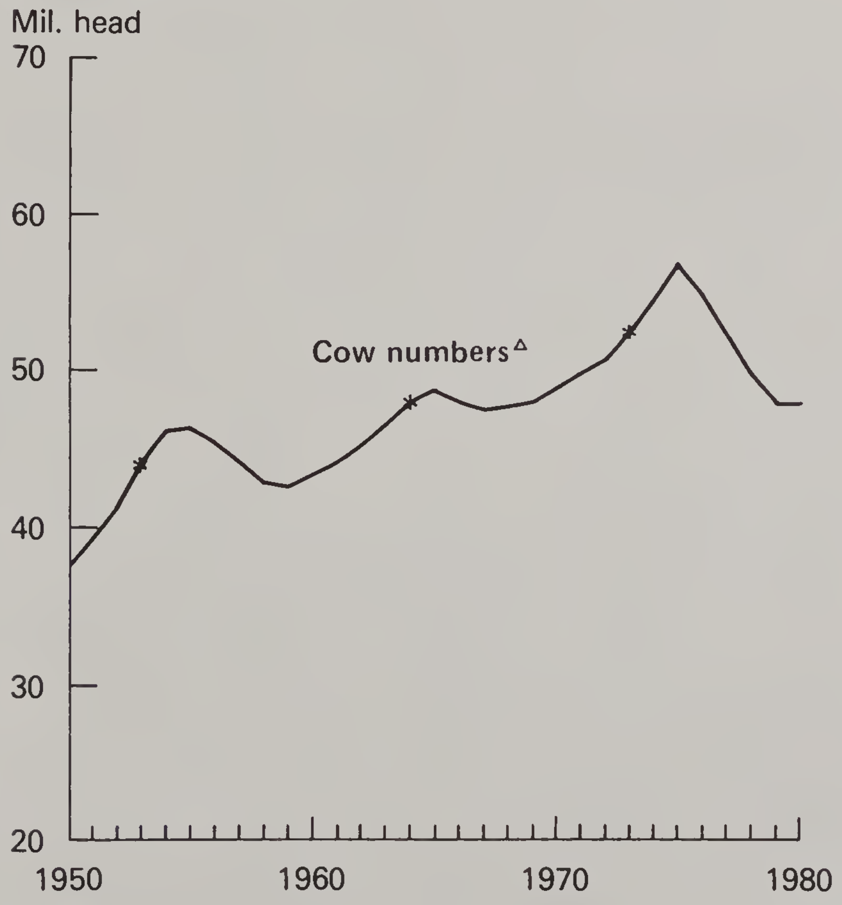
cow numbers continued to increase another year or so beyond that point due to the large number of heifers already being held. The subsequent slaughter of younger cattle and excess breeding stock caused beef production to mushroom, resulting in lower prices and negative returns to cattlemen.

The key here is for you to be able to recognize the potential for oversupply well before it is imminent.

If cattlemen begin culling more cows and holding fewer heifers for herd replacement 1 to 2 years before an expected trigger point, they could slow growth in the cattle herd to match consumer demand for the rest of the decade.

In other words, by no later than 1983, it would be wise to start closely monitoring herd size and the rate at which replacement heifers are entering the herd.

OVEREXPANSION POINTS IN PREVIOUS CATTLE CYCLES



△January 1 inventory of beef and dairy cows.
*When overexpansion began.

Of course, unforeseen shifts in consumer demand and productivity per cow could alter the projected rate of safe herd expansion. Future issues of this newsletter will keep you up to date on any change in these factors, along with updated projections of stable herd growth.

To Expand Or Not To Expand . . .

For now, if you are considering expanding your herd, you still face many of the same difficult questions as last summer. For example: Should you sell your replacement heifers now, ensuring a good and immediate return? Or do you want to retain them for your beef cow herd?

Obviously, if you sell now, you can expect a favorable return. Feeder heifers averaged about $85 a cwt. last year, so a 500-lb. heifer sold for $425 as a feedlot placement. Feeder prices will be about the same or a little higher this year.

If you keep your heifers as herd replacements, you will of course forego the immediate return of selling them.

On the other hand, a heifer retained will probably produce 6 or 7 calves--her own replacement and 5 or 6 calves for sale, plus her value as a cull cow. At current prices, this program would produce annual average receipts of $450 to $475 per brood cow.

. . . Depends on Your Financial Situation

Naturally, all cattlemen are not in the same financial situation right now. Many have had a couple of years to reestablish their financial base. Grazing conditions have been mostly favorable, and excess grazing capacity now exists in many areas.

On many crop-livestock farms, however, producers quit the cattle business

FARMERS' NEWSLETTER

February 80/L-16

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101
FIRST CLASS

To change your address, return the mailing label from this newsletter with your new address to ESCS Publications, Room 0005-S, USDA, Washington, D.C. 20250.

several years ago in favor of cash grain production, with at least part of the pasture converted to grain acreage. Those who got out then are unlikely to get back in now.

Such farmers face higher interest costs as well as sharply higher prices of replacement cows--$600 to $800 per head compared with the $200 to $250 they got for their cows a few years ago.

A unit of one bull and 20 cows, excluding replacement heifers, could easily cost $15,000 to $20,000 today. At an annual rate of 15 percent, the interest cost on such a purchase would total around $2,500--equal to the value of 4 or 5 calves.

Cattle operators still in business, however, can expand without having to raise a lot of outside capital. Most have owned their land for several years. Even if they have not yet paid off their loans, the interest rates and the price they paid for their land are both well below today's high going prices.

While most cash costs will continue rising, feeder cattle prices are expected to remain high enough to cover them and still provide a return for family labor and management.

Once you have restored your financial base, you can expect herd expansion to bring you favorable returns for several years. Although your cow herd should be kept as efficient as possible, this year may still be a good time to retain older cows to calve at least one more time.

Now is an excellent time to bring replacement heifers into the herd.

CATTLE PRICES: ACTUAL VS DEFLATED

	Feeder steers[1]		Fed steers[2]	
Year	Actual price	Deflated price[3]	Actual price	Deflated price[3]
	Dollars per cwt.			
1967 . . .	26.68	26.68	25.29	25.29
1968 . . .	27.92	26.79	26.87	25.79
1969 . . .	31.78	28.94	29.45	26.82
1970 . . .	33.70	28.98	29.36	25.24
1971 . . .	34.87	28.75	32.40	26.71
1972 . . .	41.40	33.04	35.78	28.56
1973 . . .	53.17	39.95	44.54	33.46
1974 . . .	37.88	25.65	41.89	28.36
1975 . . .	33.75	20.94	44.61	27.67
1976 . . .	39.40	23.11	39.10	22.93
1977 . . .	40.18	22.14	40.38	22.25
1978 . . .	58.78	30.08	52.33	26.78
1979 . . .	83.11	38.23	67.67	31.13

[1] 600-700 lb. steers, Kansas City. [2] 900-1100 lb. steers, Omaha. [3] 1967 dollars.